

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 PA-01 ICAE-00 AID-05 CEA-01 CIAE-00
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O R 062015Z APR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 9705
INFO AMEMBASSY ANKARA
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AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY LONDON
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PASS AID AND TREASURY

E.O. 11652: N/A
TAGS: EFIN, TU, EAID, OECD, GW
SUBJECT: TURKISH CONSORTIUM - SECRETARIAT NOTE ON
SHORT-TERM EXTERNAL DEBT SITUATION

REFS: (A) PARIS 11282; (B) PARIS 10769

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1. OECD SECRETARIAT DOCUMENT CONSORTIUM/TURKEY (78)5,
DATED APRIL 5, 1978, REPORTS ON SHORT-TERM EXTERNAL
DEBT SITUATION OF TURKEY. IT WAS COMPLETED FOLLOWING
RETURN OF RECENT OECD MISSION TO ANKARA. MAJOR PORTION
OF DOCUMENT TEXT REPEATED BELOW.

2. QUOTE

A. THE CURRENT ACCOUNT DEFICIT OF THE TURKISH BALANCE OF PAYMENTS HAS SUBSTANTIALLY AND CONTINUALLY RISEN IN RECENT YEARS. WHILST IN 1974, THE YEAR MOST COUNTRIES HAD TO BEAR THE BRUNT OF THE FOUR-FOLD INCREASE IN THE PRICE OF OIL, IT WAS STILL A RELATIVELY MODEST \$719 MILLION, THE DEFICIT ATTAINED \$2.3 BILLION IN 1976 AND \$3.4 BILLION LAST YEAR.

B. TURKEY WAS UNABLE TO MEET THESE DEFICITS OF THE BALANCE OF PAYMENTS FULLY THROUGH A DEPLETION OF HER FOREIGN CURRENCY RESERVES-- WHICH AT THEIR PEAK IN 1974 HAD ATTAINED \$2.2 BILLION-- OR BY RAISING LONG-TERM LOANS ON THE EUROMARKET. A LARGE PART OF THE DEFICITS WAS FINANCED SHORT-TERM IN THE FORM OF EURO-LOANS AND WHEN THIS SOURCE OF FUNDS DRIED UP IN 1977, THE TURKISH CENTRAL BANK BEGAN TO OPERATE A SYSTEM OF RATIONING FOREIGN EXCHANGE AND OF DELAYING PAYMENTS. DURING THIS DIFFICULT PERIOD, THE TURKISH AUTHORITIES HAVE NEVERTHELESS KEPT UP PAYMENTS OF INTEREST AND AMORTISATION OF FOREIGN DEVELOPMENT LOANS EXTENDED THROUGH THE TURKISH CONSORTIUM.

C. AT THE END OF 1977, TURKEY'S TOTAL FOREIGN SHORT-TERM DEBT DUE AND NOT PAID CAME TO \$3.4 BILLION. IN ADDITION, APPROXIMATELY \$2 BILLION SHORT-TERM EURO-LIMITED OFFICIAL USE

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LOANS THAT HAD ENTERED TURKEY IN THE FORM OF CONVERTIBLE LIRA DEPOSITS NEED TO BE REPAID IN THE NEAR FUTURE. \$3.6 BILLION OF THIS TOTAL SHORT-TERM DEBT OF \$5.4 BILLION ARE OWED BY TURKEY TO INTERNATIONAL BANKS; THE REMAINING \$1.9 BILLION CONSTITUTE TRADE DEBTS VIS-A-VIS INDIVIDUAL SUPPLIERS OR GOVERNMENTS, MAINLY IN THE OECD AREA. IT IS ESTIMATED THAT ABOUT \$500 MILLION OF THE TRADE ARREARS RUN UP BY TURKEY SO FAR ARE COVERED

BY OFFICIAL GUARANTEES FROM WESTERN COUNTRIES.

D. THE NEW TURKISH GOVERNMENT, WHICH CAME TO OFFICE IN JANUARY 1978, HAS TAKEN FIRM POLICY MEASURES IN THE DOMESTIC DEMAND MANAGEMENT AND FOREIGN EXCHANGE FIELD DESIGNED TO REVERSE THE ADVERSE TREND IN FOREIGN RECEIPTS AND PAYMENTS ON EXTERNAL ACCOUNTS. THESE MEASURES HAVE FOUND THE APPROVAL OF THE INTERNATIONAL MONETARY FUND, WHICH IS CONSIDERING EXTENDING A LOAN UNDER THE COMPENSATORY FINANCING FACILITY OF SDR 74 MILLION AND A STANDBY CREDIT OF SDR 300 MILLION TO TURKEY OVER A TWO-YEAR PERIOD. UNDER THE AGREEMENT TO BE CONSIDERED ON 24 APRIL BY THE EXECUTIVE BOARD, THE

IMF WILL MAKE AVAILABLE FUNDS FROM THE SUPPLEMENTARY
FINANCING FACILITY WHEN THIS FACILITY BECOMES OPERATION-
AL.

E. IT IS EVIDENT, HOWEVER, THAT THE IMF LOAN,
WHICH WOULD BE DISBURSED IN INSTALLMENTS, WOULD NOT GO
VERY FAR IN ENABLING TURKEY TO CLEAR HER SHORT-TERM

FOREIGN DEBT. AS SUCH CLEARANCE IS THE PREREQUISITE

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O R 062015Z APR 78
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AMEMBASSY LONDON
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FOR A RETURN TO NORMAL CONDITIONS IN FOREIGN TRADE AND
PAYMENTS FOR TURKEY -- IN PARTICULAR AS REGARDS FUTURE
COMMERCIAL TRADE FINANCING AND RAISING LONGER-TERM
EUROLOANS -- THE QUESTION NOW ARISES OF CONSOLIDATING
TURKEY'S OFFICIAL SHORT-TERM DEBT OF SOME \$5 BILLION
TO BANKS, CONSORTIUM MEMBERS, AND OTHER INTERNATIONAL

CREDITORS.

F. THIS NOTE INTENDS TO ACQUAINT MEMBERS WITH
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THE FACTS AS TO THE SIZE AND COMPOSITION OF TURKEY'S
SHORT-TERM EXTERNAL DEBT AS IT HAS BEEN COMMUNICATED
TO THE SECRETARIAT IN RECENT MONTHS. THE FIGURES MAY
BE APPROXIMATE AND WILL PROBABLY BE SUBJECT TO SOME
CHANGE, IN PARTICULAR AS REGARDS THE BREAKDOWN BY
COUNTRIES.

G. BY THE END OF 1977, THE TURKISH CENTRAL BANK
OWED TO INTERNATIONAL COMMERCIAL BANKS WHICH ACT AS HER
CORRESPONDENTS, AND TO THE BIS, THE SUM OF \$1.6 BILLION;
IN ADDITION, DELAYS OF TRANSFERS ON TRADE ACCOUNT FOR
GOODS ALREADY IMPORTED AMOUNTED TO \$1.9 BILLION. A
FURTHER SUM OF \$2 BILLION WILL FALL DUE FOR PAYMENT
(PRINCIPALLY TO INTERNATIONAL BANKS) UNDER THE CON-
VERTIBLE LIRA DEPOSIT SCHEME, WHICH HAD BEEN USED TO
ATTRACT SHORT-TERM FUNDS INTO THE COUNTRY IN RECENT
YEARS. THUS, THERE IS A TOTAL OF \$5.4 BILLION OF DEBTS
THAT ARE EITHER ALREADY DUE OR FALLING DUE IN THE
NEAR FUTURE.

H. THE FOLLOWING TABLE GIVES AN ESTIMATE OF THE
BREAKDOWN OF THE CENTRAL BANK'S SHORT-TERM FOREIGN DEBT
UP TO THE END OF 1977, WITH SOME MORE RECENT DATA AS OF
24 FEBURARY 1978. THE DATA DO NOT TAKE ACCOUNT OF ANY
CREDITS THAT HAVE FALLEN DUE FOR PAYMENT AND THAT HAVE
NOT BEEN REPAID OR PROLONGED SINCE 24 FEBURARY 1978
(I.E., THE DATE OF THE LATEST ESTIMATE).

TABLE 1 -- TURKEY'S SHORT-TERM DEBT

(U.S. \$ MILLIONS)

31.12.77 24.2.78

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1. PAYMENTS DUE	1,617	1,808
OVERDRAFTS	240	247
PAYMENT ARREARS:		
COMMERCIAL	204	204
NON-COMMERCIAL	289	383

ACCEPTANCE CREDITS	410	500
BANKERS' CREDITS	384	384
BIS	90	90
2. OTHER TRADE ARREARS	1,850	2,020
3. OUTSTANDING CTL DEPOSITS	1,978	1,958
TOTAL	5,445	5,786

I. THE ITEMS "OVERDRAFTS" AND "BANKERS' CREDITS" REPRESENT PRINCIPALLY FACILITIES ACCORDED TURKEY BY CORRESPONDANCE BANKS TO MEET URGENT BILLS: "PAYMENT ARREARS" AND "ACCEPTANCE CREDITS," BY CONTRAST, ARE CLAIMS ON THE TURKISH CENTRAL BANK THAT THE LATTER HAS NOT BEEN ABLE TO PAY ON TIME FOR LACK OF FUNDS.

J. THE \$2 BILLION CTL DEPOSITS FALLING DUE IN 1978 OR LATER ARE DEBTS ARISING FROM THE SHORT-TERM EURO-FINANCING OF IMPORTS WHICH TURKEY HAD ALLOWED TO ACCUMULATE, ESPECIALLY SINCE 1976. THE PROBLEM IN RESPECT OF THIS PART OF TURKEY'S SHORT-TERM DEBT MAY BE LESS ONE OF REPAYMENT THAN OF REFINANCING, ONCE TURKEY'S INTERNATIONAL CREDIT-WORTHINESS HAS BEEN RESTORED. IT IS TURKEY'S HOPE THAT SUCH REFINANCING WILL BE ON A LONGER-TERM BASIS AND TURKEY WOULD BE PREPARED TO OFFER A REMUNERATION COMMENSURATE WITH THE STRETCHING OUT OF MATURITIES.

K. THE PAYMENT ARREARS IN RESPECT OF GOODS LIMITED OFFICIAL USE

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O R 062015Z APR 78
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TO SECSTATE WASHDC IMMEDIATE 9707
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AMEMBASSY ROME
AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY LONDON
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IMPORTED BY TURKEY UP TO THE END OF 1977, WHICH TOTAL
\$1.9 BILLION, ARE FOR THE MOST PART CLAIMS BY EXPORTERS
IN OECD COUNTRIES (\$1.3 BILLION). IN ADDITION, TURKEY
OWES COUNTRIES OF EASTERN EUROPE \$145 MILLION, OIL
PRODUCERS \$350 MILLION, AND OTHER COUNTRIES \$26 MILLION.

1. THE LARGEST ARREARS WITH OECD COUNTRIES HAVE
OCCURRED WITH GERMANY (\$326 MILLION), THE UNITED STATES
(\$209 MILLION), THE UNITED KINGDOM (\$144 MILLION),
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SWITZERLAND (\$122 MILLION), AND JAPAN (\$107 MILLION).
FRANCE AND ITALY, AND A NUMBER OF SMALLER MEMBER
COUNTRIES, IN PARTICULAR BELGIUM AND THE NETHERLANDS,
ARE REPORTED ALSO TO HAVE SUBSTANTIAL TRADE CLAIMS ON
TURKEY (SEE TABLE 2).

M. NO PRECISE DATA ARE AVAILABLE AS TO THE SUM OF
OVERDUE GUARANTEED EXPORT CREDITS, WHICH WILL BE OR
HAVE ALREADY BECOME A FINANCIAL LIABILITY OF MEMBER
GOVERNMENTS VIS-A-VIS THEIR EXPORTERS; A ROUGH
ESTIMATE PUTS THIS FIGURE AT AROUND \$500-600 MILLION AS
OF THE END OF LAST YEAR. DEDUCTING THIS AMOUNT FROM
THE TOTAL TRADE DEBT AS PER 31.12.1977 LEAVES SOME \$750
MILLION UNACCOUNTED FOR. IN PRINCIPLE, THIS SUM REPRESENTS
UNINSURED CLAIMS BY PRIVATE EXPORTERS AND
COMMERCIAL FIRMS, WHICH HAVE NO OPTION BUT TO AWAIT
THEIR TURN TO BE PAID IN THE QUEUE MANAGED BY THE

TURKISH CENTRAL BANK. THERE IS SOME DOUBT, HOWEVER, WHETHER THE TOTAL AMOUNT OF UNINSURED TRADE ARREARS IS, IN FACT, STILL OWED TO SUPPLIERS OF TURKISH FIRMS ABROAD. THERE IS EVIDENCE THAT PART OF LAST YEAR'S IMPORTS BY TURKEY, FOR WHICH TURKISH FIRMS HAVE COMPLETED THE FORMALITIES NECESSARY FOR THE PURCHASE OF FOREIGN EXCHANGE FROM THE CENTRAL BANK, WERE IN FACT PAID FOR IN CASH BY THE FIRMS IN QUESTION OUTSIDE OFFICIAL CHANNELS. IT IS, EVIDENTLY, NEXT TO IMPOSSIBLE TO ESTIMATE THE EXTENT OF THESE TRANSACTIONS, BUT INFORMED SOURCES HAVE PUT THEIR VOLUME WELL ON THE HIGHER SIDE OF \$500 MILLION, IF THIS IS INDEED THE CASE, THE CONSEQUENCES OF THE FACT THAT TURKEY HAS BEEN FORCED BY ADVERSE CIRCUMSTANCES TO RUN UP HIGH TRADE ARREARS IN 1977 MAY BE LESS SEVERE FOR PRIVATE FIRMS OR BANKS IN OECD MEMBER COUNTRIES THAN THE AVAILABLE LIMITED OFFICIAL USE

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FIGURES SUGGEST ON FIRST SIGHT.

TABLE 2 -- TURKEY'S TRADE DEBT (AS AT 31.12.1977)

GOODS ACTUALLY IMPORTED IN U.S. \$ MILLIONS	
PAYMENT ARREARS	
1. CONSORTIUM MEMBERS	1,203.5
AUSTRIA	29.3
BELGIUM	47.8
CANADA	37.4
DENMARK	11.9
FRANCE	75.4
GERMANY	326.1
ITALY	88.4
LUXEMBOURG	13.1
NETHERLANDS	63.5
NORWAY	12.9
SWEDEN	22.5
SWITZERLAND	122.2
U.K.	144.1
U.S.	208.9
2. OTHER OECD COUNTRIES	144.4
OF WHICH: JAPAN	106.6
3. EASTERN EUROPEAN COUNTRIES	145.1
4. OIL DEBT	350.0

5. OTHER 25.7

TOTAL 1,868.7(A)

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(A) THIS TOTAL DOES NOT AGREE EXACTLY WITH THE
FIGURES FOR ITEM 2 IN TABLE 1.

N. THE GOVERNMENT OF TURKEY HAS JUST CONCLUDED
AN AGREEMENT WITH THE IMF WITH THE PURPOSE OF OBTAINING
A STANDBY CREDIT AND OTHER FACILITIES BY THE FUND,

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SIL-01 AGRE-00 OMB-01 SS-15 /099 W
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O R 062015Z APR 78
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TO SECSTATE WASHDC IMMEDIATE 9708
INFO AMEMBASSY ANKARA
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TOTALING SDR 374 MILLION. THIS CAN ONLY BE THE FIRST STEP IN A COMPLEX OPERATION TO REDRESS THE TURKISH BALANCE OF PAYMENTS AND RE-OPEN THE WAY TO COMMERCIAL EXTERNAL FINANCING FOR TURKEY. IT NEED NOT BE POINTED OUT THAT THIS LATTER AIM IS BOTH IN THE INTEREST OF MEMBER COUNTRIES AND OF TURKEY HERSELF. MOREOVER, THE TURKISH CASE IS ALSO A TEST FOR THE INTERNATIONAL FINANCIAL SYSTEM WHETHER IT CAN DEAL EFFECTIVELY WITH THE PAYMENTS CRISIS OF A LARGER COUNTRY THAT HAS BEEN LIMITED OFFICIAL USE

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CAUSED, AT LEAST TO A SIGNIFICANT EXTENT, BY THE FOUR-FOLD INCREASE IN THE PRICE OF OIL AND BY REDUCED ECONOMIC GROWTH IN THE WEST.

O. GIVEN THE STRUCTURE OF TURKEY'S FOREIGN DEBT, THE MAJOR PART OF THE CONSOLIDATION OF TURKEY'S SHORT-TERM OBLIGATIONS WILL FALL ON THE INTERNATIONAL BANKING SYSTEM. IN THIS RESPECT IT MAY BE APPROPRIATE TO RECALL THAT TURKEY'S SHORT-TERM DEBT TO BANKS IS NOT ONLY CONSTITUTED OF SHORT-TERM EUROLOANS WHICH WERE MAINLY SPECULATIVE IN CHARACTER, BUT THAT ABOUT \$1.3 BILLION WERE ADVANCED BY THE MAJOR COMMERCIAL BANKS TO ENABLE THE TURKISH CENTRAL BANK TO CONTINUE PAYMENTS. THUS, AT LEAST IN THIS SPHERE, THE INTERESTS OF GOVERNMENTS AND OF INTERNATIONAL BANKS MERGE.

P. WHILST THE AGREEMENT WITH THE IMF IS A PRE-REQUISITE FOR TURKEY HAVING ACCESS TO FRESH EUROLOANS AND OBTAINING A CONSOLIDATION OF HER SHORT-TERM DEBT TO BANKS, IT IS NO LESS IMPORTANT TO CONSOLIDATE THE OVER-DUE GUARANTEED TRADE DEBT OF SOME \$500 MILLION AND TO RE-OPEN GUARANTEED EXPORT CREDIT LINES FOR FUTURE TRADE WITH TURKEY. AS THE SITUATION IS LIKELY TO DIFFER STRONGLY FROM COUNTRY TO COUNTRY, MEMBERS WILL, NO DOUBT, WISH TO CONSIDER DIFFERENT SOLUTIONS THAT MAY REACH FROM EXTENDING GOVERNMENT GUARANTEES TO BANKS FOR ADDITIONAL COMMERCIAL LOANS TO FORMAL DEBT RELIEF, DEBT REFINANCING OR THE GRANTING OF ADDITIONAL PROGRAM AID AT CONCESSIONAL TERMS.

Q. THE TERMS OF ANY RESCHEDULING NEED TO BE EXAMINED RATHER CAREFULLY. TURKEY'S PRESENT OFFICIAL DEBT SERVICE AMOUNTS TO APPROXIMATELY \$650 MILLION, I.E., LIMITED OFFICIAL USE

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ABOUT 20 PERCENT OF EARNINGS FROM EXPORTS OF GOODS AND SERVICES; A CONSOLIDATION OF A DEBT OF \$5 BILLION WHICH IS SPREAD OVER TOO SHORT A PERIOD WOULD IMPOSE A BURDEN ON TURKEY WHICH MIGHT PROVE TOO HEAVY TO SUPPORT IN THE END. THE PROBLEM TURKEY FACES IS NOT SIMPLY ONE OF OBTAINING SUFFICIENT INTERNATIONAL FUNDS TO CONSOLIDATE ITS SHORT-TERM DEBT AND POSSIBLY FINANCE FUTURE BALANCE OF PAYMENTS DEFICITS BUT TO OBTAIN ADEQUATE CONCESSIONAL FINANCE (WHICH CAN ONLY BE GRANTED BY GOVERNMENTS AND INTERNATIONAL INSTITUTIONS) IN ORDER TO KEEP SERVICE CHARGES ON TURKEY'S EXTERNAL DEBT WITHIN MANAGEABLE LIMITS. IT IS EVIDENT THAT THIS NEEDS TO BE ACCOMPANIED BY VERY CAREFUL MANAGEMENT OF DOMESTIC AND EXTERNAL RESOURCES BY TURKEY HERSELF.
END QUOTE.

3. SECRETARIAT IS ALSO PREPARING SEPARATE REPORT ON TURKEY'S ECONOMIC SITUATION AND BALANCE OF PAYMENTS TO BE AVAILABLE SHORTLY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, CONSORTIUMS, DEBTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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Image Path:
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Legacy Key: link1978/newtext/t19780485/aaaaculd.tel
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Original Handling Restrictions: n/a
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Page Count: 10
Previous Channel Indicators: n/a
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Reference: 78 PARIS 11282, 78 PARIS 10769
Retention: 0
Review Action: RELEASED, APPROVED
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Review Event:
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Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
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Subject: TURKISH CONSORTIUM - SECRETARIAT NOTE ON SHORT-TERM EXTERNAL DEBT SITUATION
TAGS: EFIN, EAID, TU, GE, OECD
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Type: TE
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Review Markings:
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Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014